

**DEPARTMENT OF AGING**

1300 NATIONAL DRIVE, SUITE 200  
SACRAMENTO, CA 95834-1992  
Internet Home Page: [www.aging.ca.gov](http://www.aging.ca.gov)  
TDD Only 1-800-735-2929  
FAX Only (916) 928-2504  
Audit Branch (916) 419-7515



August 10, 2010

Susan Era, Deputy Director  
Area Agency on Aging – Mendocino County  
Department of Social Services  
P.O. Box 839  
Ukiah, CA 95482

Dear Susan Era:

**FINAL NOTICE OF AUDIT DETERMINATION, PSA 26  
TITLE III/VII, III-E, CBSP, and OVRI PROGRAMS  
FOR THE FISCAL PERIOD JULY 1, 2005 through JUNE 30, 2008**

Enclosed is the California Department of Aging's (CDA) Final Notice of Audit Determination (NAD) for Mendocino County Area 26 Agency on Aging (Agency). This review covered Title III/VII, III-E, Community-Based Service Program (CBSP), and the Ombudsman Volunteer Recruitment Initiative (OVRI) programs for the above periods.

The Final NAD presents our conclusions pertaining to the Agency's financial closeout reports (reported program expenditures), accounting records, internal controls, and compliance with grant requirements for the above-referenced programs. We noted a contract resolution finding that was subsequently resolved; therefore, there are no questioned costs as a result of our review. See attached for a detailed explanation.

If you have any questions regarding the Final NAD, please contact Fili T. Gonzalez at (916) 928-2765 or [fgonzalez@aging.ca.gov](mailto:fgonzalez@aging.ca.gov).

Sincerely,

Beverly D. Englund  
Audit Branch Manager

Enclosures

cc: Lynn Daucher, Director, CDA  
Paula Butler, AAA-Based Team A, CDA (via e-mail)

**CALIFORNIA DEPARTMENT OF AGING  
NOTICE OF AUDIT DETERMINATION**

**ORGANIZATION:** MENDOCINO COUNTY AREA AGENCY ON AGING

**FOR THE PERIOD:** JULY 1, 2005 THROUGH JUNE 30, 2008

---

**PSA: 26**

**Programs :** Title III/VII, III-E, Community Based Service Program (CBSP), and Ombudsman Volunteer Recruitment Initiative (OVRI) Program.

**Contracts/ Grant Nos:**

AP-0506-26

AP-0607-26

AP-0708-26

The California Department of Aging's (CDA) Audit Branch has completed a review of Mendocino County Area Agency on Aging (Agency) to resolve grant contracts with CDA.

The purpose of our review and the tests conducted was to determine the:

- Fairness of reports on financial results submitted to CDA.
- Adequacy of internal accounting and administrative controls.
- Agency's compliance with applicable laws, regulations, and contract requirements.

**REPORT ON THE FINAL CLOSEOUT REPORTS**

We reviewed the Agency's single audit reporting packages and official accounting records for the fiscal periods to determine the actual and allowable expenses of the Title III/VII, III-E, CBSP, and OVRI programs. We compared the Agency's reported direct and subrecipient expenses against amounts reported to CDA on Financial Closeout Reports (CDA 180 and CDA 002) to help determine the overall accuracy of grant funded expenses reported. Based on our review, we did not identify any questioned cost. As a result, we determined the closeouts submitted by the Agency fairly presented the Agency's financial operations for the Title III/ VII, III-E, CBSP, and OVRI programs for the fiscal years under review.

**CALIFORNIA DEPARTMENT OF AGING  
NOTICE OF AUDIT DETERMINATION**

**ORGANIZATION:** MENDOCINO COUNTY AREA AGENCY ON AGING  
**FOR THE PERIOD:** JULY 1, 2005 THROUGH JUNE 30, 2008

---

**REPORT ON INTERNAL CONTROL**

The Agency's single audit reporting packages, for the above fiscal periods, did not include any reportable condition or material internal control weaknesses related to the Title III/VII, III-E, CBSP, and OVRI programs. We conducted additional tests to obtain assurance regarding internal controls. Based upon our tests, we conclude that the control structure used by the Agency is adequate.

**REPORT ON COMPLIANCE WITH GRANT REQUIREMENTS**

The Agency's single audit reporting packages, for the above periods, did not include any reportable conditions or material internal control weaknesses related to the Title III/VII, III-E, CBSP, and OVRI programs.

We conducted additional tests we considered material to CDA's oversight responsibilities to obtain assurance of Agency's compliance. Based on our review, we identified that the agency did not perform contract resolution on any of its subrecipients. The Agency received technical assistance from CDA's Audit Branch and subsequently performed adequate contract resolution on its subrecipients (please see attached Point Sheet). With the exception of the contract resolution finding, we conclude that the Agency's operation of the Title III/VII, III-E, CBSP, and OVRI programs were in compliance with applicable laws, regulations, and contract requirements. Please see attached.

This Final NAD represents our resolution of the Agency's contracts for the period of July 1, 2005, through June 30, 2008. The results of CDA's review, the tests performed, and the procedures to resolve the findings were discussed at an exit conference on October 1, 2009. We received an email on behalf of Susan Era on August 9, 2010, authorizing us to issue this report as final, without first issuing a draft.

---

Fili T. Gonzalez  
General Auditor III

**CALIFORNIA DEPARTMENT OF AGING (CDA)  
AUDITS BRANCH**

**AREA AGENCY ON AGING, MENDOCINO COUNTY (AGENCY)  
PSA 26  
FY 2005-06 through FY 2007-08**

**FINDING REGARDING CONTRACT RESOLUTION**

**CONDITION:**

The Mendocino County Area Agency on Aging (Agency) initially failed to ensure that expenditures reported to California Department of Aging (CDA or Department) for contracted services were appropriately claimed as required by the contract as well as Office of Management and Budget (OMB) Circular A-133 for single audit filers.

After technical assistance was provided by CDA's Audit Branch, the Agency performed adequate contract resolution of its subcontractors.

**CRITERIA:**

- A. For FY 2005-06, the Standard Agreement (Contract or Agreement) between the CDA and Agency, Exhibit D, Special Terms and Conditions, Article X, Audits, Section C states:

The Contractor shall ensure that all subcontractors expending \$500,000 or more in total federal funds have met the audit requirements of the OMB Circular A-133.

1. Ensure that appropriate corrective action has been taken to correct instances of noncompliance with federal laws and regulations. Corrective action shall be taken within six months after the Contractor receives the subcontractor's audit report.
2. Consider whether subcontractor audits necessitate adjustment of the Contractor's own records.
3. Require each subcontractor to permit independent auditors to have access to the records and financial statements as necessary for the Contractor to comply with OMB Circular A-133.
4. Subcontractors expending less than \$500,000 in total federal funds are exempt from federal audit requirements, but records must be made available for review.

## **Section D of the Contract states:**

Ensuring that the requirements of the OMB Circular A-133 are met is generally interpreted to mean that the Contractor will ensure that the subcontractor's audit was:

1. Performed timely – not less frequently than annually and a report submitted timely. The audit is required to be completed not later than 9 months after end of the subcontractor's fiscal year. The audit report is due to the Contractor not later than 30 days after the completion of the audit.
2. Properly procured – use OMB Circular A – 110 procurement standards; and provide maximum opportunities to small and minority audit firms.
3. Performed in accordance with Government Auditing Standards – shall be performed by an independent auditor and be organization-wide.
4. All inclusive – includes an audit of the financial statements and assessment of internal controls including tests of transactions and a determination of compliance with laws and regulations of all major federal programs and selected non-major program transactions.
5. All audits shall be performed in accordance with, and address all issues contained in, any federal OMB Compliance Supplement that applies to this program.
6. All audits or subcontractor shall consider the program identified in Section "B" as a cluster for purposes of determining major programs or whether a program specific audit may be elected.

Note: Although the above provisions are from FY 2005-06 Contract they are similar to the provision of the Contract for FY 2006-07 and FY 2007-08.

- B. For FY 2006-07, the Contract between the CDA and Agency, Exhibit D, Article X, Audits,

## **Section C states:**

The Contractor shall perform a reconciliation of the "Financial Closeout Report" to the audited financial statements. The reconciliation shall be maintained and made available for Department review. The Contractor shall have the responsibility of resolving its contracts with subcontractors to determine whether funds provided under this Agreement are expended in accordance with applicable laws, regulations, and provisions of contracts or agreements. Contract resolution includes:

1. Ensuring that a subcontractor expending \$500,000 or more in Federal awards during the subcontractor's fiscal year has met the audit requirements of OMB Circular A-133 as summarized in Section D.
2. Issuing a management decision on audit findings within six months after receipt of the subcontractor's single audit report and ensuring that the subcontractor takes appropriate and timely corrective action.
3. Reconciling expenditures reported to the Department to the amounts identified in the single audit or other type of audit, if the subcontractor was not subject to the single audit and who did not obtain another type of audit, the reconciliation of expenditures reported to the Department must be accomplished through the performance of alternative procedures (e.g., expense verification review/fiscal monitoring assessments).
4. Determine whether the results of the reconciliations performed above necessitate adjustment of the Contractor's own records.

Note: Although the above provisions are from FY 2006-07 Contract they are similar to the provisions of the Contract for FY 2007-08.

Section F states:

The Contractor shall have the responsibility of resolving audits of its subcontractors. The Contractor shall prepare a summary worksheet to result from the audit resolutions performed for all subcontractors. The summary worksheet shall include, but not be limited to, contract amount, amount resolved, variances, whether an audit was relied upon or the Contractor performed an independent expense verification review of the subcontractor in making the determination whether audit findings were issued, and if applicable date of management letter.

Section G states:

If the subcontractor is not required to obtain an audit in accordance with Section C of this Article, the Contractor must determine whether the subcontractor expended the funds provide under this Agreement in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subcontractor or through other means (e.g., monitoring/expense verification reviews).

Section O states:

The Contractor shall perform a reconciliation of the "Financial Closeout Report" to the audited financial statements. The reconciliation shall be maintained and made available for CDA to review.

Note: Although the above provisions are from FY 2005-06 Contract, they are similar to the provisions of the Contracts for FY 2006-07 and FY 2007-08.

#### CAUSE:

The Agency believed fiscal monitoring of its subcontractors was sufficient to meet contract resolution requirements.

#### EFFECT:

As a result of not performing the requirements of OMB Circular A-133 and the contract, the Agency did not ensure that expenditures reported to CDA for contracted services were appropriately claimed. The Agency had no assurance that amounts claimed to CDA were allowable and accurate.

#### RECOMMENDATION:

The Agency shall continue to comply with requirements of OMB Circular A-133 and the provisions of the Contract by indentifying which of their subcontractors are single audit filers and ensuring that those contractors have met the audit requirements of the OMB Circular A-133.

When the subcontractor is not required to obtain an audit in accordance with OMB Circular A-133, the Contractor must determine whether the subcontractor expended the funds provided under this Agreement in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subcontractor or through alternative procedures.

The Agency should continue to perform contract resolution for all its subcontractors to resolve their expenditures and reconcile to the "Financial Closeout Report." It is the responsibility of the Agency to resolve its contracts with subcontractors and to determine whether funds provided under this contract to its subcontractors are expended in accordance with applicable laws, regulations, and provisions of the contracts.